



AI Anxiety Masks Broadening Equity Strength

2/17/2026

Last week delivered exactly what the market needed on the economic data front: confirmation that inflation continues to cool while the labor market remains firmly intact. The CPI came in softer than expected, finally reflecting the long-awaited deceleration in rental costs. The employment report surprised to the upside with unemployment declining and broader measures like U-6 improving. Jobless claims stabilized comfortably in that 200,000 to 240,000 range, the sweet spot that signals resilience without overheating. Taken together, this is a constructive backdrop for risk assets.

The most encouraging data point may not be the headline CPI itself, but real wages. Year-over-year real weekly earnings were reported up 1.9%, the strongest gain since the pandemic. Hourly real earnings are running around 1.2%, in line with recent history, but that near-2% annual gain in weekly pay tells us purchasing power is improving in a meaningful way. These wage gains—combined with inflation consistently undershooting expectations—can shift consumer psychology. Importantly, we are seeing one of the largest divergences between expected inflation and actual inflation. As consumers realize prices are not rising nearly as fast as feared, that gap becomes a tailwind for spending.

From a monetary perspective, this is precisely the environment that gives the Federal Reserve (Fed) room to continue lowering rates. Money supply growth has stabilized while inflation is trending toward the Fed's 2% objective without a deterioration in employment.

There are, of course, crosscurrents. AI-driven disruption fears are rippling through markets at an extraordinary pace. Entire industries—from real estate office space to tax preparation to travel platforms—are being repriced on the possibility of disintermediation and workplace changes. The speed of technological innovation is both exhilarating and anxiety-producing. But we've seen this movie before. Historically, technological revolutions ultimately expand productivity and real incomes. The near-term volatility reflects uncertainty over margins and competitive positioning, not a collapse in aggregate demand.

In fact, what I see unfolding is continued healthy market rotation. The anxiety is concentrated in select AI-linked leaders and industries perceived as vulnerable to disruption. Meanwhile, large portions of the non-Magnificent 7 market trade at reasonable multiples and has potential to be beneficiaries—not victims—of AI adoption. Productivity gains will not accrue solely to tech providers; they will lift margins across industrials, healthcare, financials, and consumer sectors. That's where the valuation support lies.

Housing remains a structural problem, but it is a supply problem, not a demand collapse. Rents are stabilizing, which is why CPI is cooling, yet home prices are not falling meaningfully because regulatory and zoning constraints continue to choke supply. We have seen tremendous technological progress in nearly every sector over the past half century, but homebuilding productivity has not improved. Still, stabilizing rents directly help inflation and real incomes, reinforcing the broader disinflationary trend.

Policy uncertainty also bears watching. The Supreme Court's pending decision on tariffs and ongoing debates around trade policy could inject volatility. However, rhetoric has softened around steel and aluminum tariffs, and there is growing recognition that Trump owns the outcomes of the current economy. As he himself has admitted. That reduces the probability of extreme trade actions that could destabilize inflation expectations.

Market volatility, reflected in a VIX around 20, tells us hedging activity remains elevated. Bitcoin's sharp decline has erased roughly a trillion dollars in wealth, contributing to short-term churning. But elevated volatility is not inherently bearish. In fact, when the VIX sustains readings above 20, it often signals sufficient pessimism to provide a cushion under equities. Excessive complacency, VIX at 14 or 15, would concern me far more.

Technological change will continue to disrupt industries, and some business models will be impaired. But productivity growth is ultimately deflationary and wealth-enhancing. We may even see the long-discussed four-day workweek become viable over time as output per hour accelerates. That is not a recessionary signal, that is a prosperity signal.

Anxiety is part of every technological transition. But the data tell us the economy is stabilizing, inflation is receding, and real incomes are rising. That is not a backdrop for derailing a bull market. It is a backdrop for its expansion.

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